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Rural China Takes Off: Institutional Foundations of Economic Reform, by Jean C. Oi, and China's Industrial Technology: Market Reform and Organizational Change, by Shulin Gu,

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Jean C. Oi. **Rural China Takes Off: Institutional Foundations of Economic Reform.** Berkeley, Calif.: University of California Press, 1999. Pp. xv+253. \$45.00 (cloth).

Shulin Gu. **China's Industrial Technology: Market Reform and Organizational Change.** London: Routledge in association with the United Nations University Press, 1999. Pp. xxx+410. \$110.00 (cloth).

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Looking at two very different aspects of economic reform in China, these authors nonetheless develop a similar theme—that government has played an active, positive role in China's economic transition from a planned to a market-oriented system. Oi focuses on the role of local government in developing rural industry, while Gu analyzes the central government's success in transforming research institutes to promote technological change. Both studies are well organized, clearly written, and based on extensive interviews in China.

The Oi study analyzes in detail the changing incentives and constraints, combined with available resources, that shaped the actions of local government officials at county, township, and village levels. One result was the growth of rural industry, which, in the author's view, has been the pillar of China's development success since reforms began in the late 1970s. Oi readily admits that there was no single pattern of policy implementation for all local areas and the responses were different at the various administrative levels. However, she argues that there were major institutional changes that stimulated local officials to focus on developing the economies within their jurisdictions.

The process can be summarized—and greatly simplified—in the following way. Decollectivization of agriculture in the early 1980s revealed substantial surplus labor, thereby creating a need for many more jobs in rural areas. It was the responsibility of local government officials to solve the employment problem. In addition, throughout the 1980s and 1990s, changes in the public finance system allowed local governments to keep more revenue, rather than hand it over to the central government, if their locality could increase the tax revenues generated from legitimate enterprises. These changes created both incentives and resources to establish and promote enterprises in nonagricultural production.

Because of political taboos and savings constraints, private enterprise did not play a major role in local development in the early years of reform. In the 1990s, however, localities began to support the private sector in ways similar to the collective sector in the 1980s. Oi suggests that this was motivated by a need to increase the industrial base of local economies, implying that collective enterprises faced constraints on growth and profitability that large private firms could perhaps overcome. Nonetheless, Oi argues that there con-

tinues to be a close relationship between government and private firms so that private entrepreneurs have not become an independent economic class. Oi further suggests that this means that the Chinese economy is not evolving into a free market system but, rather, "local state corporatism."

While Oi focuses on local processes, Gu sees central government policies as critical in the transformation of ineffectual research and development (R & D) institutions that existed under planning into new and reformed institutions that became increasingly dynamic. Gu explicitly argues that reinventing industrial technology R & D institutions is essential to market reforms in China and that it could not be done without the government. She also describes a process whereby government officials have been able to learn and adapt as conditions changed and, thus, continually improve policy. The Torch program, for example, encouraged institutions to create new enterprises to commercialize technology. Gu argues that the program was created in response to the spontaneous development of spin-offs that were developing already to sanction this process and give it direction.

Combining document research, statistical summaries, and numerous case studies, Gu does an excellent job of building her thesis. Her book has three parts. Part 1 explains the reform process of China's science and technology system over the past 20 years. Part 2 analyzes the development of technology enterprises, which are totally new, nonstate institutions within China. Part 3 analyzes how the old, state-run institutions have been reformed, noting both the successes and continued problem areas. In all three aspects, China's government played a pivotal role in shaping, pushing, and altering policies to improve the usefulness and adaptation of innovations created within research institutions.

Both of these studies are extremely rich in detail, which allows ample explanation of the complex processes they are trying to uncover. Despite this success, it is still perplexing how government interference in markets so often leads to inefficiency and mistakes, but apparently China's case is different. Under what circumstances can public firms play the same role as private firms, as Oi claims (p. 10), or can government lower the costs and risks of transition, as Gu claims (p. 124)? Or, do we have an argument here for a government role in transition, only to exit once the transition is complete? If so, what will cause the government to exit? And if the government continues to influence the economy to the degrees described in these two studies, would we then expect failure for all the normal reasons? Both of these authors probably would say that China has had a unique experience to date, which helps explain China's relative success in comparison with the former Soviet Union and others, but that the final outcome is still far from certain.

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